

Warren: IG must investigate fraud, waste and abuse in small business loan program

United States Senator Elizabeth Warren (D-Mass.) and Chairwoman of the House Committee on Small Business, Representative Nydia Velázquez (D-NY-07) wrote to the Small Business Administration (SBA) and Treasury Department Inspector Generals (IG) requesting a broad investigation into the implementation of the Paycheck Protection Program (PPP).

“The PPP was intended to help the small businesses that form the backbone of our economy, and has now been provided over \$650 billion by Congress to do so. To make sure that these funds are spent consistent with congressional intent and appropriately to address the economic impacts of the COVID-19 pandemic, we request that you open a broad investigation into the program’s implementation,” wrote the lawmakers.

Senator Warren and Representative Velázquez called for a review of the SBA and Treasury Department rulemaking and guidance process and whether it was effective in ensuring lenders and small businesses could access the program quickly and equitably – and if there were appropriate protections against program waste, fraud, and abuse. They asked for an assessment of whether banks favored larger, wealthier customers and existing customers to the detriment of the small mom-and-pop businesses. They also asked for a determination of whether larger businesses and public companies were able to obtain loans, the cost of these loans to taxpayers, if these businesses needed the funds due to COVID-19 pandemic, and whether companies with close ties to Administration officials or other political connections were able to receive PPP funds.

Congress created the PPP to prevent bottlenecks and allow

banks and credit unions in every community to quickly and easily administer this small business assistance. But even before the program officially began, there were reports of numerous problems with the SBA rules and implementation of the law, and it became apparent that agency leadership did not take adequate steps to prevent a number of foreseeable errors.

Once the banks began processing loans, small businesses immediately began to raise concerns that they were playing favorites, processing the largest loans first out of a desire to reap higher fees, and shoring up their business lines by prioritizing existing larger customers over small mom-and-pop businesses. For example, JP Morgan “provided loans to virtually all of its commercial banking customers that sought financing through the small business relief program, while the lender’s smallest customers were almost entirely shut out.”

In addition to favoring large, well-off customers, the program was undermined by large restaurant chains, hotels, and other huge publicly traded companies that received PPP loans that were intended to benefit small businesses. For example, Continental Materials, a “company owned by a prominent Chicago family (the family of U.S. Ambassador to Belgium Ronald Gidwitz) with close ties to the Trump administration was able to get a \$5.5 million loan under the program.” Although the Treasury Department released guidance designed to address some of these concerns yesterday, it is not clear if this guidance will be sufficient to prevent abuse of the program.

The lawmakers wrote that the reports raise significant questions about whether SBA and Treasury officials that wrote the rules took appropriate steps to prevent abuse. With Congress already allocating an additional \$310 billion to the PPP, they asked that the SBA and Treasury Department Inspector Generals open a broad investigation to ensure the program supports the millions of small businesses that have been devastated by the economic collapse caused by COVID-19.

Since the beginning of the COVID-19 outbreak, Senator Warren has worked to ensure Massachusetts can get the help it needs – including the Commonwealth’s small businesses. She called for clear guidance from SBA and Treasury to ensure all small businesses have equal and expedient access to funding. Senator Warren also called on Congress to do more to help small businesses survive this crisis. She proposed eliminating the cap on total relief on small business loans. On March 26th, Senator Warren joined Boston Mayor Martin J. Walsh on a conference call with Boston small business owners to share details of the relief for small businesses in the latest legislative package. She held a similar call with small businesses across the Commonwealth the same day. Senators Warren and Markey shared information and resources for small businesses impacted by coronavirus.

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